

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Grass Lake	County Jackson
Fiscal Year End December 31, 2006	Opinion Date May 29, 2007	Date Audit Report Submitted to State June 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

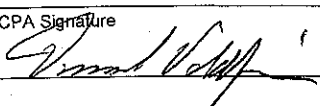
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not considered necessary	
Other (Describe)	<input checked="" type="checkbox"/>	Internal control communication (SAS No. 112)	
Certified Public Accountant (Firm Name) Siegfried Crandall P.C.		Telephone Number (269) 381-4970	
Street Address 246 E. Kilgore		City Kalamazoo	State MI
		Zip 49002	
Authorizing CPA Signature 		Printed Name Daniel L. Veldhuizen	License Number 1101020724

*Charter Township of Grass Lake*  
*Jackson County, Michigan*  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**  
*Year ended December 31, 2006*

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## INDEPENDENT AUDITORS' REPORT

### Board of Trustees

### Charter Township of Grass Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Grass Lake, Michigan, as of December 31, 2006, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Charter Township of Grass Lake, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Grass Lake, Michigan, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The budgetary comparison information, on pages 23 - 25, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Charter Township of Grass Lake, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Grass Lake, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Sigfried Crandall P.C.*

May 29, 2007

## **BASIC FINANCIAL STATEMENTS**

**Charter Township of Grass Lake**  
**STATEMENT OF NET ASSETS**  
December 31, 2006

	<u><b>Governmental activities</b></u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 899,603
Receivables	427,547
Prepaid expenses	<u>41,909</u>
Total current assets	<u>1,369,059</u>
Noncurrent assets:	
Receivables	1,065,240
Capital assets not being depreciated - land	198,769
Capital assets, net of accumulated depreciation	<u>1,766,260</u>
Total noncurrent assets	<u>3,030,269</u>
Total assets	<u>4,399,328</u>
<b>LIABILITIES</b>	
Current liabilities:	
Payables	209,121
Deferred revenue	448,566
Bonds and contracts payable	<u>91,282</u>
Total current liabilities	<u>748,969</u>
Noncurrent liabilities:	
Bonds and contracts payable	<u>1,389,388</u>
Total liabilities	<u>2,138,357</u>
<b>NET ASSETS</b>	
Invested in capital assets	1,501,029
Restricted for:	
Cemetery perpetual care	9,890
Public safety - fire protection	177,355
Public safety - inspections	31,817
Public works	211,889
Culture and recreation	8,135
Unrestricted	<u>320,856</u>
Total net assets	<u>\$ 2,260,971</u>

See notes to financial statements

**Charter Township of Grass Lake**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2006

Functions/Programs	Program revenues				Net (expenses) revenues and changes in net assets
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	
Governmental activities:					
Legislative	\$ 13,044	\$ -	\$ -	\$ -	\$ (13,044)
General government	303,886	30,726	-	19,500	(253,660)
Public safety	266,989	66,616	-	76,288	(124,085)
Public works	192,426	108,132	6,243	-	(78,051)
Community and economic development	20,423	5,329	-	-	(15,094)
Culture and recreation	3,879	-	-	116,699	112,820
Interest on long-term debt	<u>75,927</u>	<u>70,819</u>	<u>-</u>	<u>-</u>	<u>(5,108)</u>
Total governmental activities	<u>\$ 876,574</u>	<u>\$ 281,622</u>	<u>\$ 6,243</u>	<u>\$ 212,487</u>	<u>(376,222)</u>
General revenues:					
Property taxes					414,405
State shared revenue					239,083
Cable franchise fees					2,674
Interest income					<u>57,102</u>
Total general revenues					<u>713,264</u>
Change in net assets					337,042
Net assets - beginning					<u>1,923,929</u>
Net assets - ending					\$ 2,260,971

See notes to financial statements



**Charter Township of Grass Lake**  
**BALANCE SHEET - governmental funds**  
December 31, 2006

	<u>General</u>	<u>Fire Operating</u>	<u>Wolf Lake Sewer District</u>	<u>Water District</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>						
Cash	\$410,379	\$ 261,794	\$ 32,147	\$ 92,147	\$ 69,539	\$ 866,006
Receivables	<u>167,359</u>	<u>157,133</u>	<u>536,670</u>	<u>607,842</u>	<u>23,783</u>	<u>1,492,787</u>
Total assets	<u>\$577,738</u>	<u>\$ 418,927</u>	<u>\$ 568,817</u>	<u>\$699,989</u>	<u>\$ 93,322</u>	<u>\$ 2,358,793</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Payables	\$137,961	\$ 4,133	\$ 32,147	\$ -	\$ 25,000	\$ 199,241
Deferred revenue	<u>150,940</u>	<u>245,593</u>	<u>536,670</u>	<u>607,842</u>	<u>52,033</u>	<u>1,593,078</u>
Total liabilities	<u>288,901</u>	<u>249,726</u>	<u>568,817</u>	<u>607,842</u>	<u>77,033</u>	<u>1,792,319</u>
Fund balances:						
Reserved for perpetual care	9,890	-	-	-	-	9,890
Unreserved:						
Designated for capital purchases	-	60,317	-	-	-	60,317
Undesignated	278,947	108,884	-	92,147	-	479,978
Undesignated reported in nonmajor:						
Special revenue fund	-	-	-	-	8,135	8,135
Debt service fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,154</u>	<u>8,154</u>
Total fund balances	<u>288,837</u>	<u>169,201</u>	<u>-</u>	<u>92,147</u>	<u>16,289</u>	<u>566,474</u>
Total liabilities and fund balances	<u>\$577,738</u>	<u>\$ 418,927</u>	<u>\$ 568,817</u>	<u>\$699,989</u>	<u>\$ 93,322</u>	<u>\$ 2,358,793</u>

Total fund balances - all governmental funds \$ 566,474

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 1,965,029

Prepaid expenses are not a current financial resource and, therefore, are not reported in the funds. 41,909

Special assessments receivable are not available to pay for the current period's expenditures and, therefore, are deferred in the funds. 1,144,512

Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,480,670)

Interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds. (8,100)

Net assets of the Building Inspections Fund that have been combined with those of *governmental activities*. 31,817

Net assets of *governmental activities* \$ 2,260,971

**Charter Township of Grass Lake**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - governmental funds**

Year ended December 31, 2006

	<u>General</u>	<u>Fire Operating</u>	<u>Wolf Lake Sewer District</u>	<u>Water District</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>REVENUES</b>						
Property taxes	\$ 135,160	\$ 230,838	\$ -	\$ -	\$ 48,407	\$ 414,405
Federal grants	-	76,288	-	-	-	76,288
State grants	245,326	-	-	-	-	245,326
Licenses and permits	5,205	-	-	-	-	5,205
Charges for services	52,929	18,401	-	6,200	-	77,530
Interest and rentals	32,465	20,283	37,107	37,896	170	127,921
Other	16,162	-	57,903	37,990	116,699	228,754
Total revenues	<u>487,247</u>	<u>345,810</u>	<u>95,010</u>	<u>82,086</u>	<u>165,276</u>	<u>1,175,429</u>
<b>EXPENDITURES</b>						
Legislative	13,044	-	-	-	-	13,044
General government	288,064	-	-	-	-	288,064
Public safety	-	130,605	-	-	-	130,605
Public works	192,426	-	-	-	-	192,426
Culture and recreation	1,316	-	-	-	-	1,316
Community and economic development	20,423	-	-	-	-	20,423
Capital outlay	15,313	409,812	-	-	121,869	546,994
Debt service:						
Principal	-	-	57,903	25,000	25,000	107,903
Interest	-	-	37,107	22,542	16,678	76,327
Total expenditures	<u>530,586</u>	<u>540,417</u>	<u>95,010</u>	<u>47,542</u>	<u>163,547</u>	<u>1,377,102</u>
<b>NET CHANGE IN FUND BALANCES</b>	(43,339)	(194,607)	-	34,544	1,729	(201,673)
<b>FUND BALANCES - BEGINNING</b>	<u>332,176</u>	<u>363,808</u>	<u>-</u>	<u>57,603</u>	<u>14,560</u>	<u>768,147</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 288,837</u>	<u>\$ 169,201</u>	<u>\$ -</u>	<u>\$ 92,147</u>	<u>\$ 16,289</u>	<u>\$ 566,474</u>

See notes to financial statements

**Charter Township of Grass Lake**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**- governmental funds (Continued)**  
Year ended December 31, 2006

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Net change in fund balances - total governmental funds \$ (201,673)

Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Capital assets:

Assets acquired	542,883
Provision for depreciation	(77,953)

Long-term debt - principal repayments	107,903
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Changes in other assets/liabilities:

Net decrease in deferred revenue	(29,528)
Net increase in prepaid expenses	2,540
Net decrease in accrued interest	400

The net expenses of the Building Inspections Fund are reported with <i>governmental activities</i> .	<u>(7,530)</u>
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Change in net assets of <i>governmental activities</i>	<u>\$ 337,042</u>
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**Charter Township of Grass Lake**  
**STATEMENT OF NET ASSETS - proprietary fund**  
December 31, 2006

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	<u><b>Building Inspections</b></u>
<b>ASSETS</b>	
Cash	\$ 33,597
<b>LIABILITIES</b>	
Payables	<u>1,780</u>
<b>NET ASSETS</b>	31,817
 Amounts reported for business-type activities in the government-wide statement of net assets (page 5) are different because:	
 Assets and liabilities of the Building Inspections Fund have been combined with those of <i>governmental activities</i> .	
	<u>(31,817)</u>
 Net assets of business-type activities	 <u>\$ -</u>

See notes to financial statements

**Charter Township of Grass Lake**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET**  
**ASSETS - *proprietary fund***  
*Year ended December 31, 2006*

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	<b><u>Building Inspections</u></b>
<b>OPERATING REVENUES</b>	
Charges for services - licenses and permits	\$ 48,215
<b>OPERATING EXPENSES</b>	
Personnel costs	8,070
Contracted services	<u>47,675</u>
Total operating expenses	<u>55,745</u>
<b>CHANGE IN NET ASSETS</b>	(7,530)
<b>NET ASSETS - BEGINNING</b>	<u>39,347</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 31,817</u>
<b>CHANGE IN NET ASSETS</b>	\$ (7,530)
Amounts reported for business-type activities in the government-wide statement of activities (page 6) are different because:	
Revenues and expenses of the Building Inspections Fund have been combined with those of the <i>governmental activities</i> .	<u>7,530</u>
Change in net assets of business-type activities	<u>\$ -</u>

See notes to financial statements

**Charter Township of Grass Lake**  
**STATEMENT OF CASH FLOWS - proprietary fund**  
Year ended December 31, 2006

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	<b><u>Building Inspections</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 48,215
Payments to vendors and suppliers	(47,710)
Payments to employees	<u>(8,070)</u>
Net cash used in operating activities	(7,565)
<b>CASH - BEGINNING</b>	<u>41,162</u>
<b>CASH - ENDING</b>	<u><u>\$ 33,597</u></u>
<b>Reconciliation of change in net assets to net cash used in operating activities:</b>	
Change in net assets	\$ (7,530)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Decrease in payables	<u>(35)</u>
Net cash used in operating activities	<u><u>\$ (7,565)</u></u>

See notes to financial statements

**Charter Township of Grass Lake**  
**STATEMENT OF FIDUCIARY NET ASSETS - *fiduciary funds***  
*December 31, 2006*

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	<u><b>Agency funds</b></u>
<b>ASSETS</b>	
Cash	<u>\$ 946,078</u>
<b>LIABILITIES</b>	
Due to other governmental units	<u>\$ 946,078</u>

*See notes to financial statements*

**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Charter Township of Grass Lake, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

*a) Reporting entity:*

The accompanying financial statements present the activities of the Township. There are no component units, legally separate entities for which the Township is considered to be financially accountable.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.



**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Fire Operating Fund accounts for the financial resources used for the operation and maintenance of the Township Fire Department. Revenues are primarily derived from property taxes.

The Wolf Lake Sewer District accounts for the financial resources used for payments of long-term contractual obligations to the Jackson County Drain Commission. Revenues are primarily derived from special assessments and connection fees.

The Water District Fund accounts for the financial resources used for payments of long-term contractual obligations to Jackson County. Revenues are primarily derived from special assessments and connection fees.

The Township reports a single proprietary fund, its Building Inspection Fund, which accounts for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Township reports a single fiduciary fund type. The Township's agency funds account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

*ii) Receivables* - In general, outstanding balances between funds are reported as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

*iii) Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

*iv) Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning January 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 10 years
Vehicles	10 - 20 years

**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*d) Assets, liabilities, and net assets or equity (continued):*

*v) Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

*vii) Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on February 14 (with the final collection date of February 28), at which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, taxes have been deferred from recognition as revenue until the following year.

The 2005 taxable valuation of the Township totaled \$184,776,108, on which ad valorem taxes levied consisted of the following:

<u>Fund</u>	<u>Millage rate</u>	<u>Purpose</u>	<u>Taxes raised</u>
General	0.7145	Operating	\$ 140,519
Fire Operating	1.249	Operating	245,592
Fire Building	0.256	Debt	52,033

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

*Excess of expenditures over appropriations in budgetary funds* - P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Township's significant budgetary variances are as follows:

<u>Fund</u>	<u>Function</u>	<u>Total appropriation</u>	<u>Actual expenditures</u>	<u>Variance</u>
General	Public works	\$ 174,733	\$ 192,426	\$ 17,693
Fire Operating	Capital outlay	42,015	409,812	367,797
Other governmental	Capital outlay	-	121,869	121,869

**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 - CASH:**

The Township's deposits were reported in the basic financial statements in the following categories:

	<i>Governmental activities</i>	<i>Fiduciary funds</i>	<i>Totals</i>
Cash	\$ 899,603	\$ 946,078	\$ 1,845,681

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. Some of the Township's deposits are not in accordance with statutory authority because they are held in financial institutions that do not maintain an office in the State of Michigan.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. As of December 31, 2006, \$1,305,727 of the Township's bank balances of \$1,895,727 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Township believes that it is impractical to insure all bank deposits. The Township evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4 - RECEIVABLES:**

Receivables as of year end for the Township's funds are as follows:

<i>Fund</i>	<i>Property taxes</i>	<i>Special assessments</i>	<i>Inter- governmental</i>	<i>Accounts</i>	<i>Totals</i>
General	\$ 86,365	\$ -	\$ 78,957	\$ 2,037	\$ 167,359
Fire Operating	147,133	-	10,000	-	157,133
Wolf Lake Sewer	-	536,670	-	-	536,670
Water District	-	607,842	-	-	607,842
Nonmajor governmental	23,783	-	-	-	23,783
Totals	\$ 257,281	\$ 1,144,512	\$ 88,957	\$ 2,037	\$ 1,492,787
Noncurrent portion	\$ -	\$ 1,065,240	\$ -	\$ -	\$ 1,065,240

All receivables are considered fully collectible.

**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 198,769	\$ -	\$ -	\$ 198,769
Capital assets being depreciated:				
Buildings and improvements	1,007,211	144,119	-	1,151,330
Equipment	336,440	103,838	-	440,278
Vehicles	775,600	294,926	-	1,070,526
Subtotal	2,119,251	542,883	-	2,662,134
Less accumulated depreciation for:				
Buildings and improvements	(131,861)	(24,562)	-	(156,423)
Equipment	(123,225)	(28,057)	-	(151,282)
Vehicles	(562,835)	(25,334)	-	(588,169)
Subtotal	(817,921)	(77,953)	-	(895,874)
Total capital assets being depreciated, net	1,301,330	464,930	-	1,766,260
Governmental activities capital assets, net	\$ 1,500,099	\$ 464,930	\$ -	\$ 1,965,029

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 16,083
Public safety	59,307
Culture and recreation	<u>2,563</u>
Total governmental activities	<u>\$ 77,953</u>

**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 - PAYABLES:**

Payables as of year end for the Township's funds are as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Inter- govern- mental</i>	<i>Totals</i>
General	\$ 11,805	\$ 126,156	\$ 137,961
Fire Operating	4,133	-	4,133
Wolf Lake Sewer District	-	32,147	32,147
Building Inspections	1,780	-	1,780
Nonmajor governmental	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Totals	<u>\$ 42,718</u>	<u>\$ 158,303</u>	<u>\$ 201,021</u>

**NOTE 7 - DEFERRED REVENUES:**

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenues are as follows:

<i>Fund</i>	<i>Unearned Property taxes</i>	<i>Unavailable Special assessments</i>	<i>Totals</i>
General	\$ 150,940	\$ -	\$ 150,940
Fire Operating	245,593	-	245,593
Wolf Lake Sewer	-	536,670	536,670
Water District	-	607,842	607,842
Nonmajor governmental	<u>52,033</u>	<u>-</u>	<u>52,033</u>
Totals	<u>\$ 448,566</u>	<u>\$ 1,144,512</u>	<u>\$ 1,593,078</u>

**NOTE 8 - LONG-TERM DEBT:**

\$565,000 2002 Jackson County contract payable - payable in annual installments ranging from \$25,000 to \$50,000, plus interest at 3.40% to 6.00%; final payment due April 2022

\$ 480,000

The Township has a contractual agreement to remit to the Wolf Lake Sewer Common Fund (the Common Fund), a joint venture of the Township, all principal and interest collections arising from special

**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 8 - LONG-TERM DEBT (Continued):

assessments levied on properties served by the Common Fund in the Wolf Lake sewer district. In the event that the Common Fund is unable to meet its debt service requirements, an assessment may be made against the Township. The Township has pledged its full faith and credit for the payment of its share (23.27%) of any such deficiency.

\$ 536,670

\$514,000 2004 installment purchase agreement - payable in annual installments ranging from \$25,000 to \$54,000, plus interest at 3.50%; final payment due May 2017

464,000

\$1,480,670

Long-term debt activity for the year ended December 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts Due within one year</u>
2002 Contract payable	\$ 505,000	\$ -	\$ (25,000)	\$ 480,000	\$ 25,000
Contractual agreement	594,573	-	(57,903)	536,670	41,282
2004 Installment purchase agreement	<u>489,000</u>	<u>-</u>	<u>(25,000)</u>	<u>464,000</u>	<u>25,000</u>
Total	<u>\$ 1,588,573</u>	<u>\$ -</u>	<u>\$ (107,903)</u>	<u>\$ 1,480,670</u>	<u>\$ 91,282</u>

At December 31, 2006, debt service requirements on long-term debt are as follows:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>
2007	91,282	62,245
2008	96,282	58,484
2009	96,282	54,594
2010	96,282	50,636
2011	101,282	46,539
2012 - 2016	541,410	166,829
2017 - 2021	407,850	91,055
2022	<u>50,000</u>	<u>1,250</u>
Totals	<u>\$ 1,480,670</u>	<u>\$ 531,632</u>

**Charter Township of Grass Lake**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 9 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from general liability up to \$7,000,000, property and casualty, and workers' compensation are managed through purchased commercial insurance.

**NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN:**

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan, plus investment earnings. Employees are eligible to participate one year from the date of employment. The Township's contributions are fully vested after three years. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets. The Township made the required contributions of \$12,000 for the year ended December 31, 2006.

**NOTE 11 - DEFERRED COMPENSATION PENSION PLAN:**

The Township provides a deferred compensation pension plan for a single elected official through a nonqualified deferred compensation plan. In this plan, benefits depend solely on the amounts deferred to the plan, plus investment earnings. The Township's contributions are fully vested immediately. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets. The Township made the required contributions of \$8,757 for the year ended December 31, 2006.

**NOTE 12 - JOINT VENTURE:**

*Wolf Lake Sewer Common Fund:*

The Township is a participant in the Wolf Lake Sewer Common Fund (the Common Fund). The administrative board of the Common Fund consists of members appointed by each participating unit. The Common Fund was formed for the purpose of acquiring and operating a sanitary sewer system. The Township utilizes the Common Fund to transport its sewage to the Jackson County Wastewater Disposal Facility for treatment and disposal. The Township has no equity interest in the Common Fund; therefore, financial information of the Common Fund has not been included in the Township's financial statements.

Costs of operations and capital asset acquisitions of the Common Fund are supported by user charges and special assessments from the participating municipalities in this sewer district. The Township has pledged its limited tax full faith and credit for its share of bonds issued by the Common Fund.

Complete financial statements for the Common Fund can be obtained from the Charter Township of Grass Lake's Treasurer's Office at 373 Lakeside Drive, Grass Lake, MI 49240.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**Charter Township of Grass Lake**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 131,700	\$ 131,700	\$ 135,160	\$ 3,460
Licenses and permits	15,900	15,900	5,205	(10,695)
State grants	250,784	250,784	245,326	(5,458)
Charges for services	44,250	44,250	52,929	8,679
Interest and rentals	11,200	11,200	32,465	21,265
Other	17,124	17,124	16,162	(962)
Total revenues	<u>470,958</u>	<u>470,958</u>	<u>487,247</u>	<u>16,289</u>
<b>EXPENDITURES</b>				
Legislative	<u>13,200</u>	<u>13,200</u>	<u>13,044</u>	<u>156</u>
General government:				
Supervisor	23,855	23,855	23,523	332
Elections	9,075	9,075	7,839	1,236
Assessor	42,950	42,950	29,512	13,438
Clerk	49,145	49,145	48,072	1,073
Board of review	2,803	2,803	1,684	1,119
Treasurer	51,662	51,662	47,941	3,721
Hall and grounds	34,870	34,870	27,356	7,514
Cemetery	28,330	28,330	23,901	4,429
General administration	89,922	84,722	78,236	6,486
Total general government	<u>332,612</u>	<u>327,412</u>	<u>288,064</u>	<u>39,348</u>
Public works:				
Road preservation and maintenance	83,500	131,000	146,568	(15,568)
Solid waste disposal	20,200	20,200	20,214	(14)
Street lighting	10,000	10,000	12,904	(2,904)
Sewer	13,533	13,533	12,740	793
Total public works	<u>127,233</u>	<u>174,733</u>	<u>192,426</u>	<u>(17,693)</u>
Culture and recreation	<u>8,940</u>	<u>8,940</u>	<u>1,316</u>	<u>7,624</u>

**Charter Township of Grass Lake**  
**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**  
Year ended December 31, 2006

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	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
Community and economic development - planning and zoning	<u>\$ 22,635</u>	<u>\$ 27,335</u>	<u>\$ 20,423</u>	<u>\$ 6,912</u>
Capital outlay	<u>11,330</u>	<u>21,305</u>	<u>15,313</u>	<u>5,992</u>
Total expenditures	<u>515,950</u>	<u>572,925</u>	<u>530,586</u>	<u>42,339</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(44,992)</u>	<u>(101,967)</u>	<u>(43,339)</u>	<u>58,628</u>
<b>FUND BALANCES - BEGINNING</b>	<u>332,176</u>	<u>332,176</u>	<u>332,176</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 287,184</u>	<u>\$ 230,209</u>	<u>\$ 288,837</u>	<u>\$ 58,628</u>

**Charter Township of Grass Lake**  
**BUDGETARY COMPARISON SCHEDULE - Fire Operating Fund**  
Year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 226,500	\$ 226,500	\$ 230,838	\$ 4,338
Federal grants	-	-	76,288	76,288
Charges for services	10,000	10,000	18,401	8,401
Interest	10,000	10,000	20,283	10,283
Total revenues	<u>246,500</u>	<u>246,500</u>	<u>345,810</u>	<u>99,310</u>
<b>EXPENDITURES</b>				
Public safety	167,832	157,282	130,605	26,677
Capital outlay	<u>20,790</u>	<u>42,015</u>	<u>409,812</u>	<u>(367,797)</u>
Total expenditures	<u>188,622</u>	<u>199,297</u>	<u>540,417</u>	<u>(341,120)</u>
<b>NET CHANGE IN FUND BALANCES</b>	57,878	47,203	(194,607)	440,430
<b>FUND BALANCES - BEGINNING</b>	<u>363,808</u>	<u>363,808</u>	<u>363,808</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 421,686</u>	<u>\$ 411,011</u>	<u>\$ 169,201</u>	<u>\$ 440,430</u>

## **SUPPLEMENTARY INFORMATION**

**Charter Township of Grass Lake**  
**COMBINING BALANCE SHEET - nonmajor governmental funds**  
December 31, 2006

	<u>Debt service</u>	<u>Special revenue</u>	<u>Total nonmajor governmental funds</u>
	<u>Fire Building</u>	<u>Sports and Trails</u>	
<b>ASSETS</b>			
Cash	\$ 36,404	\$ 33,135	\$ 69,539
Receivables	<u>23,783</u>	<u>-</u>	<u>23,783</u>
Total assets	<u>\$ 60,187</u>	<u>\$ 33,135</u>	<u>\$ 93,322</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ -	\$ 25,000	\$ 25,000
Deferred revenue	<u>52,033</u>	<u>-</u>	<u>52,033</u>
Total liabilities	52,033	25,000	77,033
Fund balance:			
Unreserved, undesignated	<u>8,154</u>	<u>8,135</u>	<u>16,289</u>
Total liabilities and fund balances	<u>\$ 60,187</u>	<u>\$ 33,135</u>	<u>\$ 93,322</u>

**Charter Township of Grass Lake****COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - nonmajor governmental funds**

Year ended December 31, 2006

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	<u>Debt service</u>	<u>Special revenue</u>	<u>Total nonmajor</u>
	<u>Fire Building</u>	<u>Sports and Trails</u>	<u>governmental funds</u>
<b>REVENUES</b>			
Property taxes	\$ 48,407	\$ -	\$ 48,407
Interest	-	170	170
Other - donations	-	116,699	116,699
Total revenues	<u>48,407</u>	<u>116,869</u>	<u>165,276</u>
<b>EXPENDITURES</b>			
Capital outlay	-	121,869	121,869
Debt service:			
Principal	25,000	-	25,000
Interest	16,678	-	16,678
Total expenditures	<u>41,678</u>	<u>121,869</u>	<u>163,547</u>
<b>NET CHANGE IN FUND BALANCES</b>	6,729	(5,000)	1,729
<b>FUND BALANCES - BEGINNING</b>	<u>1,425</u>	<u>13,135</u>	<u>14,560</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 8,154</u>	<u>\$ 8,135</u>	<u>\$ 16,289</u>

**Members of the Township Board  
Charter Township of Grass Lake, Michigan**

In planning and performing our audit of the financial statements of the Charter Township of Grass Lake as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Township of Grass Lake's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- The balances and transactions of the Township's nonmajor governmental funds were not accounted for within the City's internal accounting records.
- The Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

This communication is intended solely for the information and use of the Board of Trustees of the Charter Township of Grass Lake and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

*Siegfried Crandall P.C.*

May 29, 2007